2006

ANNUAL REPORT

Beaumont Select
CORPORATIONS

BEAUMONT SELECT CORPORATIONS INC.

NOTICE OF ANNUAL MEETING

Beaumont's Annual Meeting of holders of common shares will be held in the Borden Ladner Gervais LLP board room at 1000, 400 Third Avenue S.W. at Calgary, Alberta at 11:00 a.m., Calgary time on Tuesday, December 12, 2006.

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Corporate Directory

DIRECTORS

Winston Ho Fatt

Andrew Hyslop

Peter Kreutzer

Bruce Dorset

Jas Butalia (appointed as of October 13, 2006)

TRANSFER AGENT

Computershare Trust

Company of Canada

Calgary, Alberta

LEGAL COUNSEL

Borden Ladner Gervais LLP

Calgary, Alberta

HEAD OFFICE

#4, 4826 – 11 Street N.E.

Calgary, Alberta T2E 2W7

Tel: (403) 250-8757

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OFFICERS

Winston Ho Fatt

Chairman of the Board, and

Chief Executive Officer

Bruce Dorset

Vice Chairman of the Board

Andrew Hyslop

Corporate Secretary

AUDITORS

Meyers Norris Penny LLP

Calgary, Alberta

BANKERS

National Bank of Canada

Calgary, Alberta

STOCK EXCHANGE LISTING

TSX Venture Exchange

Calgary, Alberta

STOCK SYMBOL

BMN.A

Corporate Profile

Beaumont Select Corporations Inc. is a management and investment corporation, which has investments in the food processing and real estate industries as well as in a portfolio of marketable securities. Beaumont charges fees and interest on its investments to its subsidiary companies.

Food Processing Division

The Food processing Division concentrates on providing high quality private label and branded products of a specialty nature in the frozen food and bakery products sectors. These products are distributed to food wholesales and retailers in North America including most major retail chains. The Frozen Food Unit is the largest processor of perogies and the largest private label processor of panzarottis in Canada, on a poundage basis. The Bakery Unit has fine product lines including high quality undecorated slab cakes, icings, Christmas cakes, Nanaimo bars, layered cakes, Swiss and jelly rolls, cake and yeast doughnut products, berry cups, crumbs and croutons, mini muffins, handcrafted cookies and sandwiches. Approximately 10% of the sales are made in the U.S.A. The production facilities are all located in Western Canada.

Investment Division

In an effort to diversify and ultimately enhance the Corporation's sources of income and financial returns, a few years ago the Corporation established a portfolio of marketable securities overseen by the Company's investment division. The investment division operates within investment guidelines established by the Board of Directors of the Corporation and reports to the investment committee of the Board. By June 30, 2006 the corporation's equity in the portfolio had grown to approximately $16.8 million, and increase of 42% in the fiscal year. In addition to benefiting from the returns obtained in the Corporation's own portfolio, the Corporation also benefits from the investment activities of Somerset Properties Ltd. in which the Corporation has a 40% interest.

Real Estate Division

The Real Estate Division owns three industrial buildings, one in Winnipeg and the other two in Calgary, with a total area of approximately 110,000 square feet. These buildings are leased to and used by the Food Processing Division. The Corporation also is involved in real estate through its 40% interest in Somerset Properties Ltd, which owns 91 acres of investment land close to high end residential developments just west of Calgary as well as 160 acres near Okotoks, just south of Calgary. Somerset also owns 52% of Talisman Homes Ltd., a private home building company, giving the Corporation an indirect 20.8% interest in Talisman.

The Real Estate division also looks for developed and undeveloped real estate acquisition opportunities that can assist in the improvement, diversification and enhancement of the Corporation's financial returns.

CORPORATE GOAL

The corporate goal of Beaumont Select Corporations Inc. is to increase operating income, net income and EBITDA by at least 5% on an annualized basis over a 6 year period and to enhance long-term shareholder value. While Beaumont has historically sought to achieve a higher recurring increase in operating income, reduction in growth potential in the food area over the last three years and anticipated for the next year has required a tempering of this objective. The chart below shows the progress we have made in the past six years:

FINANCIAL HIGHLIGHTS (in thousands of dollars except share and per share information)

	2006	2005	2004	2003	2002	2001
Net Sales	**$ 41,269**	$ 39,741	$ 37,575	$ 36,311	$ 36,602	$ 35,026
Operating Income	**666**	293	385	1,525	1,109	1,411
Net Income	**7,646**	3,314	1,783	98	83	652
Net Income per share – basic	**0.44**	0.19	0.10	0.00	0.00	0.04
Funds from operations	**1,152**	2,133	2,343	3,199	2,232	3,150
Funds from operations per share – basic	**0.07**	0.12	0.13	0.18	0.12	0.17
EBITDA before one-time expenses[1]	**13,935**	7,228	5,003[2]	4,251[2]	3,727	4,100
EBITDA per share – basic	**0.80**	0.41	0.28	0.24	0.21	0.22
Total Assets	**73,767**	52,678	37,386	29,142	29,679	28,116
Total long-term financial liabilities	**8,147**	10,373	9,776	9,236	8,757	8,050
Shareholders' Equity	**22,020**	14,748	11,746	10,763	10,921	11,086
Cash dividends declared per share	**–**	–	0.028	–	–	–
Shares outstanding, end of period	**17,170,097**	17,449,897	17,669,973	17,866,473	18,139,473	18,523,973

Note 1: EBITDA is earnings before interest, taxes, depreciation, amortization and special one-time expenses.

Note 2: Investment write-offs of approximately $92,000 and $705,000 have been excluded from the EBIDTA in 2004 and 2003 respectively.

Report to Shareholders

The fiscal year ended June 30, 2006 produced the strongest financial returns for the Corporation its history measured in terms of sales, net income, and EDITDA. These strong results occurred in the face of a challenging product sales market, an appreciating Canadian dollar, and strongly rising materials, energy and labour costs.

The strong return of the Investment division included $9.115 million of realized gains and distribution income after margin loan interest. The net book value of the company's investment portfolio less margin loan as at June 30, 2006 is 89 cents per share, up from 60 cents per share in 2005. At market value, the investment portfolio represents 91 cents per share.

The Food division has faced a combination of rising labour, materials and energy costs in a competitive environment. While some price increases have been passed through to customers, not all additional costs have been accepted by our customers.

The Corporation's own business activities were further enhanced with the material contribution to net income and EBITDA from its investment in Somerset Properties, which accounted for 20.4% of Beaumont's net income.

FINANCIAL HIGHLIGHTS

The Corporation's financial results for the year and the three months ended June 30, 2006 compared to the same period last year included the following:

- Annual sales increased 3.8% to $41.269 million
- Fourth quarter sales increased 21.3% to $10.405 million due to the purchase of a B.C. based bakery.
- Operating income for the year decreased by $959 thousand to a loss of $666 thousand due to tighter margins in the food business, mainly due to increased labour and other input costs.
- Investment portfolio generated a 111% return for the year on adjusted opening equity including both distribution income and realized capital gains due mainly to the strength of the Corporations' energy sector investments. Investment income and realized gains increased by $6.0 million to $9.115 million after interest on margin loans compared to $3.101 million in the prior fiscal year.
- Income from for the year from Beaumont's 40% interest in Somerset Properties increased to $1.61 million principally from the latter's investment income compared to $650 thousand in the prior fiscal year.
- EBITDA for the fiscal year increased 93% to $13.935 million (80 cents per basic share) from $7.223 million (41 cents per basic share). EDITDA for the fourth quarter increased 13.6% to $1.111 million (6.4 cents per basic share).
- Shareholder's equity is up 49% to $22.020 million from $14.748 in 2004-05.
- Net income for the year increased by $4.332 million or 131% to $7.646 million (44 cents per share) compared to $3.314 million (19 cents per share) for the prior fiscal year. Net income for the fourth quarter decreased by $814 thousand to a loss of $802 thousand due to reduced margins.

2006 FINANCIAL HIGHLIGHTS (in thousands of dollars except share and per share information)

	Three Months Ended		Year Ended	
	30-June-06	30-June-05	30-June-06	30-June-05
Net sales	$10.405	$8,576	$ 41,269	$ 39,741
Operating Income	(503)	292	(666)	293
Net Income	(802)	12	7,646	3,314
Net Income per share – basic	(0.05)	0.00	0.44	0.19
Net Income per share – diluted	(0.05)	0.00	0.44	0.19
Funds from operations	(74)	331	1,152	2,133
Funds from operations per share – basic	(0.00)	0.02	0.07	0.12
Funds from oeprations per share – diluted	(0.00)	0.02	0.07	0.12
EBITDA before one-time expenses	1,111	973	13,935	7,228
EBITDA per share – basic	0.06	0.06	0.80	0.41
EBITDA per share – diluted	0.06	0.05	0.80	0.41
Total Assets			73,767	52,678
Total long-term financial liabilities			8,147	10,373
Shareholders' Equity			22,020	14,748
Cash dividends declared per share			–	–
Shares outstanding, end of period			17,170,000	17,449,897

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) of the results for the year ended June 30th, 2006 (referred to as 2005-6) and for the three months ended June 30th, 2006 (referred to as the fourth quarter) should be read in conjunction with the Corporation's audited consolidated financial statements for the year ended June 30th, 2006 and the accompanying notes. All financial information is reported in accordance with Canadian Generally Accepted Accounting Principles (GAAP) unless otherwise noted. The financial measure of earnings before interest, taxes, depreciation and amortization (EBITDA) or funds from operations referred in this MD&A do not have a standardized definition prescribed by GAAP and are therefore not readily comparable to similar measures presented by other corporations even in the same industry. The Corporation's method of calculating EBITDA and funds from operations may not be comparable to similarly titled measures reported by other issuers. We believe these earnings measures are useful supplemental measures of performance, as they provide investors with an indication of the amount of cash available for reinvestment or distribution to shareholders. Investors should be cautioned, however, that EBITDA and funds from operations should not be construed as alternatives to using net income as a measure of profitability or the statement of cash flows as a measure of liquidity and cash flows.

CONSOLIDATED FINANCIAL ANALYSIS

Revenues

Overall revenues increased 3.8% to $41.269 million in the 2005-6 fiscal year from $39.741 million for the same period in 2004-5. During the fourth quarter, revenue increased 21.3% to $10.405 million from $8.576 million the previous fourth quarter.

Operating Margin

The operating margin in 2005-6 of $1.976 million or 4.8% of sales was lower than the $2.833 million or 7.1% of sales achieved in 2004-5 despite the strong increase in sales in 2005-6. The operating margin for the three months ended June 30th, 2006 was $79 thousand or 0.8% of sales compared to $605 thousand or 7.1% of sales for the same period last fiscal year. The lower margin was the result of higher costs for materials, labour and energy, and resistance to price increases by large customers.

Financing Expenses

Interest on long-term debt during 2005-6 increased by $178 thousand due to higher interest rates. Long term debt was reduced by $882 thousand and $221 thousand in the current portion, while long-term mortgages decreased by $1.344 million somewhat offset by an increase in the current portion of the mortgage of $1.025 million. Management will move to get a mortgage of $1 million refinanced to improve working capital position.

The combination of long-term debt and mortgages decreased by $1.421 million, somewhat offset by an increase in bank loans of $1.076 million. Interest service charges for short-term and long-term debts in the fourth quarter were $131 thousand and $266 thousand respectively.

Interest on margin loans for investment in marketable securities increased 194% to $1.826 million for 2005-6, and 232% to $634 thousand for the quarter ended June 30th, 2006. The increase is due to a comparable increase in margin loan balances. The margin loans incurred an average interest rate of approximately 6.5% on the simple average margin loan balance outstanding during 2005-6.

Other Income

For the 2005-6 year, the Corporation's realized gains were $7.97 million and distribution income from portfolio investments generated $3.01 million before margin costs of $1.83 million. Realized gains were positive in all twelve months of the year, and dividends combined with Income Trust distributions exceeded margin interest by a minimum of 24% every month. Realized gains had the greatest concentration in the third quarter ($3.29 million), greater than the fourth quarter ($1.46 million). Fourth quarter distributions were $820 thousand, providing positive cash flow over margin interest costs of $634 thousand.

While the Corporation's distribution income is somewhat more predictable, the amount and timing of the realized investment gains from the Corporation's marketable securities portfolio fluctuates materially from period to period subject to numerous factors beyond the Corporation's control including overall stock and capital market movement.

The Corporation recorded $1.61 million as its proportionate share of income for 2005-6 from its equity investment in Somerset Properties Ltd. This represents a 148% increase compared to the equity income recorded from Somerset in 2004-5. Somerset's income was generated from realized gains and distribution income on its marketable securities, as well as its proportionate share of income from Talisman Homes Ltd. – a Calgary home builder.

Corporate and Administrative Expenses

Recorded corporate and administrative expenses increased 4% to $1.46 million in 2005-6. Expensed for the fourth quarter of 2005-6 where $322 thousand, a reduction from $508 thousand in the fourth quarter last year.

Net Income Before and After Income Taxes

Net income before and after income taxes increased 129% and 131% to $9.247 and $7.646 million respectively for 2005-6 compared to the prior fiscal year. These large increases where primarily due to:

- Realized gains and income from the Corporation's marketable securities portfolio.
- Proportionate income from Somerset Properties Ltd.

For the three months ended June 30th, 2006, net income before tax decreased to a loss of $74 thousand. Much of this was due to a reduction in the price of commodities such as oil and copper that peaked halfway through the fourth quarter.

Tax expense for 2005-6 increased 75% to $1.27 million, $860 thousand (68%) are expected to be current taxes.

Funds from Operations

Funds from operations for 2005-6 decreased 32.8% to $1.433 million compared to 2004-5. This was mainly due to the reduced operating margin in the Food unit and to a lesser extent the Bakery Unit. Dividends and Income Trust distributions from the Investment Division exceeded margin interest expense by a minimum of 25% for every month in 2005-6, and continue to be cash flow positive. All large investment holdings are in highly liquid stocks, and provide a cash source to fund any new or existing investments.

Funds from operations for the quarter ended June 30th, 2006 decreased to $207 thousand from $329 thousand in the previous fourth quarter. The decrease was due to reduced margin from both the Baking and Frozen Food Divisions.

EBITDA for 2005-6 increased 93% to $13.929 million (81cents per share) compared to $7.228 million (41 cents per share) in the prior year, again principally due to stronger investment income and realized gains. EBITDA for the three months ended June 30th, 2006 increased 13.6% to $1.105 million (6 cents per share) for the same period in the prior year, due to increased sales versus increased borrowing costs.

The material difference between EBITDA and funds flow is due to the fact that realized gains in the Investment Division income from the 40% interest in Somerset Properties Ltd are not classified as operating income under GAAP.

Working Capital

Working capital ratio at the end of fiscal 2005-6 sits at 1.25, down slightly from last year's value of 1.29. If the marketable securities and its corresponding margin loans are excluded, this valued drops to 0.78 compared to 0.96 the previous year. Some of the reduction in the working capital ratio is a result of $1 million in mortgage payments moved from long-term to current, however it is expected this mortgage will be refinanced to a longer term.

Accounts receivable increased by 46% to $1.116 million with much of this increase in the fourth quarter due to an increase in sales. Accounts payable increased by $1.998 million or 52%, again as a result of additional purchasing required to support fourth quarter sales.

Investing Activities

Capital expenditures increased 104% to $2.646 million as a result of new equipment and purchases of other intangibles. This includes a small bakery with operations in BC, Manitoba and Ontario, and new equipment for both the baking division and frozen food division.

Financing Activities

Loans

Margin loans incurred for investment in marketable securities increased 58% to $28.51 million from the $18.026 million outstanding at the beginning of the fiscal year. The outstanding margin loan balance at June 30th, 2006 represented 69% of the Corporation's book value of its marketable securities (or 63% of its market value at the same date). The margin loan balance as at June 30th, 2005 was 70% of its book value of its marketable securities, or 60% of its market value at the same date.

Repurchase of Common shares

In June 2005 the corporation received approval form the TSX Venture Exchange to acquire and cancel 867,245 shares, representing approximately 5% of the issued and outstanding class "A" shares, through an eighth Normal Course Issuer Bid. During 2005-6, the Corporation repurchased approximately 430,000 shares from the market for an aggregate cost of $466 thousand (or an average of $1.09 per share) in a continued effort to improve shareholder value. During the fourth quarter of 2005-6 the Corporation repurchased approximately 95,200 shares from the market for an aggregate cost of $115 thousand (or an average of $1.21 per share).

Related Party Transactions

Management fees were charged by companies associated with the Chairman and CEO and Vice Chairman of the Corporation for management services which are included in corporate and administrative expenses aggregation $692 thousand during the year.

Fees were paid to current and former directors of the Corporation for professional, management and other services rendered during the year in the ordinary course of business. The aggregate $255 thousand of such expenses were included in corporate and administrative expenses during the year.

A loan agreement with Somerset Properties of $869 thousand was secured. Somerset Properties had an underutilized line of credit at a low interest rate and the board determined this was an effective way to minimize borrowing costs.

Liquidity and Capital Resources

As at June 30th, 2006, the company and its subsidiaries are in compliance with all covenants from lenders. The Corporation has total operating credit facilities of $4.6 million, of which $3.4 million have been drawn down, and a balance of $1 million available. The marketable securities portfolio, which consists of highly liquid stocks, continues to provide solid resources and a balance of $12.6 million in book value over the margin loans.

Writedown of Assets

The assets of Olympia Mills Ltd. were written down by $663 thousand for the tangible assets, and $137 thousand for intangible assets. Given the high cost of labour and fuel, it has been decided to no longer support this business as a going concern.

Summary of Quarterly Results

$ millions (except per share data)

	2006					2005				
	Q1	**Q2**	**Q3**	**Q4**	**Total**	Q1	Q2	Q3	Q4	Total
Revenues	**$10,342**	**$11,559**	**$8,963**	**$10,405**	**$41,269**	$10,344	$11,653	$9,203	$8,576	$40,141
Net income (loss)	**$ 2,947**	**$ 2,140**	**$3,361**	**$ (802)**	**$ 7,919**	$ 1,329	$ 1,577	$ 421	$ (12)	$ 3,314
Earnings (loss) per share	**0.17**	**0.12**	**0.20**	**(0.05)**	**0.44**	0.00	0.03	0.09	0.07	0.19

2005-6 revenues followed typical seasonal trends with strongest results in the second quarter. Net income results were affected by realized gains on the investment portfolio as well as seasonal operating results from the Food division.

DIVISIONAL REPORTING

Food Processing Division

Baking Division – A price increase put through in the fourth quarter helped to increase revenue. The division continues to fight against price pressures the the areas of ingredients, fuel costs and labour, especially in the Calgary and Vancouver markets. Additional products continue to be developed, such as a filled flan that was well received in the fourth quarter.

Frozen Foods Division – Frozen food sales for products such as perogies and panzerottis are counter cyclical, as consumers tend to buy more expensive food during stronger economic cycles. Sales to the U.S. have been challenged with the higher Canadian dollar, very high fuel costs and the need to store large quantities of inventory in the northeastern U.S. prior to final shipment. A new contract has been signed with the labour union that will hold labour costs until June 2009. New equipment has been added to introduce new items such as Deli perogies, and new products are planned for the current fiscal year.

Investment Division

During the fourth quarter the investment portfolio achieved more modest returns relative to the returns experienced during the first three quarters of 2005-6, with the net return after margin loan interest during the quarter being approximately $1.648 million.

During the 2005-6 fiscal year, the marketable securities portfolio grew organically from a book value of $25.669 million last year to a value of $41.141 million as at June 30th, 2006. Margin loans also grew, from $18.026 million to $28.51 million, resulting in an increase in book value of $4.998 million. Net distributions from investment of $3.01 million exceeded interest expense of $1.826 million by a total of $1.184 million. Unrealized gains at the end of the fourth quarter of the Corporation were in excess of $2.948 million, a decrease from last June 30th, 2005 value of $3.7 million. Total market value of the portfolio at the close of June 30, 2006 was $44.09 million.

At June 30, 2006, the marketable securities portfolio was composed of investments in a wide range of businesses, with a concentration of the overall capital in the energy sector. 33.4% of the total market value of the portfolio was invested in oil and gas exploration and development companies and oil and gas income trusts, with an additional 15.7% invested in energy services businesses. In the third and fourth quarters we started to diversify out of oil related stocks into more mining (16.4%) and business trusts.

At the end of the fourth quarter June 30th, 2006, the five largest investments comprised approximately 56.1% of the portfolio's market value. Each of these investments is in a different market sector, and four out of five are income trusts. The balance of the portfolio included investments in approximately 60 different companies, with the smallest 25 investments representing 2.6% of the total market value.

The corporation is affiliated with Somerset Properties Ltd., in which the Corporation holds a 40% interest. Associates of the Corporation's Chairman and CEO own the remaining 60%. Somerset is involved in investing in a marketable securities portfolio as well as real estate and real estate development. The portfolios of both companies have similar risk profiles and contain mostly common securities.

Real Estate Division

The real estate division continues to hold three properties, one in Winnipeg and two in the hot Calgary market, leased to other divisions. No material changes in this division occurred during the fiscal year 2005-6.

Somerset's subsidiary Talisman Homes Ltd. had an excellent year, realizing a profit contribution of $151 thousand to the Corporation, due to the demand for new homes in the Calgary area.

CORPORATE

Pursuant to the new disclosure rules applicable to the corporation, the chief executive officer and chief financial officer of the Corporation (in this case Winston Ho Fatt, who fills both roles) are required to evaluate the effectiveness of the Corporation's disclosure controls and procedures as of the end of June 30, 2006 and to disclose these conclusions in this MD&A.

The corporation has a very flat management structure which already has adequate procedures for the prompt identification to the Chairman and CEO and other senior management of the Corporation of material or potentially material facts and developments regarding all aspects of the business of the Corporation, its subsidiaries and associated companies. The Corporation's senior management is familiar with the disclosure obligations of public companies like the Corporation. In addition, senior management personnel regularly consult with the Corporation's legal and accounting advisors regarding changes in applicable rules regarding disclosure as well as matters of judgment in the application of those rules and regulations to the Corporation's affairs.

Based on this framework, the Corporation's Chairman and CEO has determined that the current controls and other procedures of the Corporation are designed to provide reasonable assurance that information required to be disclosed by the corporation in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation. Also the Corporation's controls and procedures are designed to ensure that information required to be disclosed by an issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the issuer's management, including its chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

SUBSEQUENT EVENTS

In March 2006, the corporation purchased a 70% interest in B.C. based bakery for $700 thousand. While it has positively impacted sales, it has negatively impacted margins. In September the corporation commenced legal action asking to unwind the agreement, alleging misrepresentation.

OUTLOOK

In light of the Canadian dollar moving to levels not recently experienced and the uncertainty regarding the impact of high energy costs on consumer demand and most input costs including ingredient costs and transportation costs for the balance of 2006-7, the Corporation is unable to provide and specific guidance on anticipated operating income, funds flow from operations and EBITDA for 2006-7. The Investment Division results are again not predictable for 2006-7. As at September 30th, 2006, the total capital employed in the portfolio has decreased to approximately $35.9 million (less margin loans of $20.9 million) as a result of a reduced number of buying opportunities in the investment market.

FORWARD LOOKING STATEMENTS

This annual report may contain forward-looking statements including statements regarding the business and anticipated financial performance of the Corporation. These forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results and performance of the Corporation to be materially different from the future results and performance expressed or implied by such forward-looking statements. A number of factors could affect the actual results, including but not limited to, input costs, competition, and access to capital markets. In light of the significant uncertainties inherent in the forward looking statements, the inclusion of such information should not be regarded as a representation by the Corporation that the objective and plans of the Corporation will be achieved. The Corporation will not necessarily update the forward-looking statements as information becomes available.

ADDITIONAL INFORMATION

For additional information on the Corporation, readers should refer to the information filed on www.sedar.com.

A NOTE OF THANKS

We wish to take this opportunity to thank all of our managers, supervisors and employees who, as associates, worked so hard to make this another successful year.

Winston Ho Fatt
Chairman and Chief Executive Officer
October 5th, 2006

Financial Statements

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

This accompanying consolidated financial statements of Beaumont Select Corporations Inc. have been prepared by management in accordance with Canadian generally accepted accounting principles consistently applied. The Corporation's accounting procedures and related systems of internal control are designed to provide reasonable assurance that its assets are safeguarded and its financial records are reliable. In recognizing that the Corporation is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these financial statements have been prepared with this in mind and within the information presented in the financial statements.

Meyers Norris Penny LLP (MNP), Charted Accountants, who were appointed by the shareholders of the Corporation at its annual meeting on December 20th, 2005 to serve as the Corporation's external auditors until the next annual meeting of shareholders, have examined the consolidated financial statements of the Corporation for the year ended June 30, 2006 and 2005.

The Audit Committee has reviewed these statements with management and the auditors, and has reported to the board of directors. The Board has approved the consolidated financial statement of the Corporation herein.

Winston Ho Fatt
Chairman and Chief Executive Officer

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Beaumont Select Corporations Inc. as at June 30, 2006 and 2005 and the consolidated statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at June 30, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Meyers Norris Penny LLP
Chartered Accountants

Calgary, Canada
September 28, 2006

Consolidated Balance Sheets

June 30, 2006 and 2005 (in thousands of dollars)

	2006	2005
ASSETS		
Current assets:		
Cash	$ 1,251	$ 1,045
Marketable securities (note 2)	41,131	25,669
Accounts receivable	3,572	2,445
Inventory (note 3)	3,878	3,513
Prepaid expenses	257	312
Current portion of loans receivable (note 4)	44	55
	50,133	33,039
Loans receivable (note 4)	74	75
Investment in and due from affiliated company (note 5)	3,317	1,707
Property and equipment (note 7)	16,388	15,276
Intangible assets (note 8)	1,012	1,086
Goodwill	1,476	926
Future income tax assets (note 13)	1,367	569
	$ 73,767	$ 52,678
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Bank loans (note 9)	$ 3,439	$ 2,363
Accounts payable and other liabilities	6,143	3,809
Margin loans on marketable securities investment (note 2)	28,510	18,026
Current portion of long-term debt (note 9)	2,278	1,474
	40,370	25,672
Related party transactions (note 6)	1,344	352
Future income taxes (note 13)	1,725	1,533
Long-term debt (note 9)	8,147	10,373
Non-controlling interest (note 10)	161	–
Shareholders' equity:		
Share capital (note 11)	8,108	8,231
Contributed surplus (note 12)	16	4
Retained earnings	13,896	6,513
	22,020	14,748
Commitment (note 16)		
Subsequent events (note 18)		
	$ 73,767	$ 52,678

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Winston Ho Fatt
Director

Peter Kreutzer
Director

Consolidated Statements of Operations and Retained Earnings

Years ended June 30, 2006 and 2005 (in thousands of dollars except per share information)

	2006	2005
Revenues (note 15)	**$ 41,269**	$ 39,741
Cost of sales:		
Direct expenses	**37,821**	35,471
Depreciation and amortization	**1,472**	1,441
	39,293	36,912
Operating margin	**1,976**	2,829
Operating expenses:		
Corporate and administrative (note 6)	**1,252**	1,406
Interest on long-term debt	**905**	727
Short-term interest and bank charges	**236**	105
Depreciation and amortization	**249**	298
	2,642	2,536
Income (loss) before the following	**(666)**	293
Other income (expenses):		
Interest on margin loans (note 2)	**(1,826)**	(617)
Investment income (note 2)	**2,969**	1,147
Gain on sale of marketable securities	**7,972**	2,570
Income from affiliated company (note 5)	**1,610**	651
Stock-based compensation (note 12)	**(12)**	(4)
Write-down of tangible assets (note 7)	**(663)**	–
Write-down of intangible assets (note 8)	**(137)**	–
	9,913	3,747
Income before income taxes and non-controlling interest	**9,274**	4,040
Income taxes (note 13):		
Current	**1,145**	430
Future	**394**	296
	1,539	726
Income before non-controlling interest	**7,708**	3,314
Non-controlling interest (note 10)	**62**	–
Net income	**7,646**	3,314
Retained earnings, beginning of year	**6,513**	3,421
Excess of consideration paid over stated value of shared redeemed (note 11)	**(263)**	(222)
Retained earnings, end of year	**$ 13,896**	$ 6,513
Net income per share (note 11):		
Basic/Diluted	**$ 0.44**	$ 0.19

See accompanying notes to consolidated financial statements.x

Consolidated Statements of Cash Flows

Years ended June 30, 2006 and 2005 (in thousands of dollars)

	2006	2005
Cash provided by (used in):		
Operations:		
Net income	$ 7,646	$ 3,314
Add (deduct) items not requiring cash:		
Depreciation and amortization	1,721	1,739
Future income taxes	394	296
Gain on disposal of marketable securities	(7,972)	(2,570)
Income from affiliated company (note 5)	(1,610)	(650)
Expenses recognized on stock-based compensation (note 12)	12	4
Write-down of assets (note 7)	663	–
Write-down of intangible assets (note 8)	137	–
Non-controlling interest (note 10)	161	–
Funds from operations	1,152	2,133
Net change in non-cash working capital balances (note 17)	3,891	(543)
	5,043	1,590
Investing:		
Purchase of property and equipment	(3,248)	(1,296)
Expenditures on intangible assets	(1,312)	(439)
Acquired goodwill	(550)	–
Decrease (increase) in loans receivable	12	(54)
	(5,098)	(1,789)
Financing:		
Increase (decrease) in bank loans, net of repayments	1,076	(254)
Repurchase and cancellation of Class A common shares	(466)	(438)
Issue of Class A common shares	80	121
Increase (decrease) in long-term debt, net of repayments	(1,421)	631
Increase in due to related parties	992	117
	261	177
Change in cash during the year	206	(22)
Cash, beginning of year	1,045	1,067
Cash, end of year	$ 1,251	$ 1,045

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(Except where indicated and per share amounts, all dollars are in thousands)
Years ended June 30, 2006 and 2005

GENERAL:

Beaumont Select Corporations Inc. (the "Corporation") is incorporated under the Business Corporations Act of Alberta. The Corporation's primary operations relate to food processing and distribution, real estate and investments.

1. SIGNIFICANT ACCOUNTING POLICIES:

The consolidated financial statements of the Corporation have been prepared in accordance with Canadian generally accepted accounting principles. In the preparation of these consolidated financial statements, management has made estimates and assumptions that affect the recorded amounts of certain of the Corporation's assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. The most significant estimate relates to determining the cost recoverability of the Corporation's goodwill and other intangible assets, which are principally based upon estimated future cash flows. While it is the opinion of management that these consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below, actual results could differ from the estimates made.

(a) Basis of presentation:

The consolidated financial statements include the accounts of the Corporation and its subsidiaries. Certain of the comparative figures have been reclassified to conform to the current year's financial statement presentation.

(b) Inventory:

Inventory is recorded at the lower of cost (first in, first out basis) and market, with market determined at net realizable value.

(c) Property and equipment:

Property and equipment are recorded at cost upon acquisition. Depreciation on property and equipment is provided using principally the straight-line method over the estimated useful lives of the assets as follows:

Asset	Estimated Useful Life
Production equipment	10 to 20 years
Buildings	10 to 20 years
Leasehold improvements	10 years
Vehicles	6 to 10 years

(d) Goodwill and other intangibles:

Goodwill represents the excess of cost over the fair value of net assets acquired. Other intangible assets relate to deferred financing costs associated with the refinancing of long-term debt and deferred development costs associated with the development of new commercially viable product lines and packaging designs. Management tests goodwill and other intangible assets for impairment at the end of the Corporation's fiscal year, taking into consideration the nature of the industry and the circumstances which might impair the value. The amount of impairment, if any, is determined based on estimated future cash flows. Any impairment in the value of the goodwill or other intangibles is charged in the period when impairment is determined. Other intangibles relating to deferred development costs are amortized on a straight-line basis over periods ranging from five to ten years and deferred financing costs are amortized over the term of the corresponding debt facility.

1. SIGNIFICANT ACCOUNTING POLICIES: *continued*

(e) Asset retirement obligations:

Asset Retirement Obligations are measurements of liabilities related to legal obligations associated with the retirement of property, plant and equipment. The fair value of the asset retirement obligations are to be recorded and capitalized on a discounted basis as part of the cost of the related asset, and amortized to expense over its useful life.

(f) Foreign currency translation:

Integrated foreign operations have been translated into Canadian dollars using the temporal method as follows:

Monetary items – exchange rates in effect at the balance sheet date;

Non-monetary items – exchange rates in effect on the dates of those transactions; and

Revenues and expenses – at the average exchange rate prevailing during the year; except for depreciation and amortization, which is translated at prevailing rates when the respective assets were acquired. Gains and losses arising from the translation are included in income for the current year.

(g) Marketable securities:

Marketable securities are recorded at the lower of cost or assigned value and market value. Realized gains or losses on sale of securities are determined based on the specific cost bases.

(h) Per share amounts:

Basic net income per share is calculated using the weighted average number of common shares outstanding during the year. Diluted net income per share is calculated following the treasury stock method assuming that the proceeds obtained upon the exercise of options would be used to purchase common shares at the average market price during the period.

(i) Income taxes:

The Corporation follows the liability method of accounting for income taxes. Under this method, future income tax liabilities and future income tax assets are recorded based on temporary differences – the difference between the carrying amount of an asset and liability in the consolidated balance sheet and its tax basis using income tax rates enacted at the balance sheet date. The effect of changes in rates on future income tax liabilities and assets is recognized in the period that the change occurs.

The Corporation is subject to ongoing examinations by federal and provincial authorities of the jurisdictions in which it operates. The Corporation regularly assesses the status of these examinations and the potential for adverse outcomes to determine the adequacy of the provision for income and other taxes. The Corporation believes that it has adequately provided for tax adjustments that are probable as a result of any ongoing or future examinations.

(j) Stock-based compensation:

In accordance with the Corporation's stock option plan, common share options may be granted to directors, officers, consultants and certain employees. In determining the stock-based compensation, the Corporation applies the Black-Scholes valuation method, and records same as expense over the vesting period for stock options granted to the option holders. When stock options are exercised for common shares, consideration paid by the option holders and the previously recognized liability associated with the stock options are recorded as share capital. Accrued compensation for forfeited stock options is adjusted to earnings by decreasing the compensation liability in the period of occurrence. No compensation expense has been recorded for awards granted prior to 2003.

1. SIGNIFICANT ACCOUNTING POLICIES: *continued*

(k) Investment in affiliated company:

The Corporation's investment in the affiliated company represents a 40% ownership interest in Somerset Properties Ltd. ("Somerset") (see note 5) and is accounted for using the equity method. Under this method, the investment account was recorded at its carrying value on June 30, 2003, the date in which the Corporation sold 60% of its ownership interest in Somerset, and is adjusted by the Corporation's proportionate share of Somerset's net earnings or losses and dividends received. The carrying value of the investment is periodically reviewed by management to determine if the facts and circumstances suggest that it may be permanently impaired. Any impairment identified through this assessment would result in a write-down of the investment and a corresponding charge to income.

(l) Revenue recognition:

Revenue from product sales are net of returns and credit notes and are recorded when delivery has been made and legal ownership of the product has been transferred to the customer.

(m) Non-controlling interest:

As a part of the acquisition of Big Island Bakery Ltd and Angiogene Inc, the Company acquired less than 100% of the equity interests. The company is deemed to exercise control over each of the above subsidiaries and has consolidated the assets, liabilities, and the results of operations for the period from the acquisition. The interest held by other parties has been recognized as a non-controlling interest in these financial statements.

2. MARKETABLE SECURITIES:

At June 30, 2006, the Corporation held marketable securities with a fair market value of $44.1 million (2005 – $29.9 million) of which $21.6 million, or 49% was in the oil and gas industry (2005 – $21.8 million or 73%). The top three holdings of the investment portfolio were diversified in various industries with a fair market value of $18.3 million or 41% (2005 – $11.5 million, or 38% concentration in oil and gas industry). In addition, the Corporation has margin loans totaling $28.5 million (2005 – $18.0 million). Marketable securities are held as collateral to satisfy the requirements of the margin loans.

3. INVENTORY:

	2006	2005
Raw materials	$ 2,380	$ 2,344
Finished goods	1,498	1,169
	$ 3,878	$ 3,513

4. LOANS RECEIVABLE:

	2006	2005
Non-interest bearing loans receivable of which $70,000 is secured by a second charge on all of the assets of the debtor. The remaining balance is unsecured with varying repayment terms	$ 118	$ 130
Less current portion	44	55
	$ 74	$ 75

5. INVESTMENT IN AND DUE FROM AFFILIATED COMPANY:

Investment in and due from affiliated Company consists of the Company's 40% investment in Somerset as well as advances due from Somerset. The Chairman and Chief Executive Officer of the Corporation owns, directly and indirectly, the remaining 60% of Somerset.

Somerset's primary operations relate to investing in a marketable securities portfolio which includes the use of margin loans. In addition, Somerset invests in real estate and is involved in the construction of homes in Calgary through a 52% ownership interest in Talisman Homes of Calgary.

Somerset's income and financial position are subject to stock and real estate market fluctuations.

In 2005, Somerset acquired 600,000 Beaumont common shares for a total purchase price of $360,000 from a company controlled by the Corporation's Vice Chairman. Somerset has also agreed with the same company to acquire by 2012 an additional 600,000 Beaumont common shares at a price of $1.10 per share, plus 25% of the excess if any by which the market value of the Corporation's common shares exceed $1.10 prior to the time of purchase.

Details of the amount due from and investment in Somerset are as follows:

	2006	2005
Investment in Somerset – beginning	$ 1,230	$ 579
Income from equity investment	1,610	651
Investment in Somerset – ending	2,840	1,230
Due from Somerset, unsecured, non-interest bearning, with no specific terms of repayment	277	277
Due from Somerset, unsecured, bearing interest @ 6% per annum, with no specific terms of repayment	200	200
Due from Somerset – ending	477	477
	$ 3,317	$ 1,707

6. RELATED PARTY TRANSACTIONS:

(a) Balance Sheet:

	2006	2005
Convertible debenture due to a shareholder and former officer of the Corporation, unsecured, bearing interest at 10% per annum compounded annually and payable on a monthly basis, with the principal portion repayable in full on July 1, 2007. The debenture is convertible at any time up to maturity, at the option of the holder, into 166,667 Class A common shares	$ 100	$ 100
Promissory note due to a shareholder and former officer of the Corporation, unsecured, bearing interest at 13% per annum, interest to be paid monthly, with the principal portion repayable in full on July 31, 2007	250	250
Promissory notes due to shareholders of the Corporation, bears interest at 10% to 12% per annum. The notes are unsecured and with no fixed terms of repayment	79	76
A loan agreement with an officer and director of the Corporation whereby the Corporation loaned the officer $69,362, secured with collateral, payable on demand, bearing interest at 7% per annum and to be accrued annually, maturing on June 30, 2007	(79)	(74)
A loan agreement with Somerset Properties Ltd., bears interest at the rate of 10% above Somerset's cost of funds, for a two year term	869	–
An advance from a minority owner of an associated company, unsecured, bears interst at 6% per annum, to be repayable over six years, commencing March 2007	125	–
	$ 1,344	$ 352

(b) Income statement:

	2006	2005
(i) Management fees charged by shareholders of the Corporation included in corporate and administrative expenses	$ 692	$ 677
(ii) Interest revenue on amounts due from an officer and shareholder of the Corporation included in revenues	$ 5	$ 5
(iii) Interest expense on amounts due to shareholders of the Corporation	$ 51	$ 51
(iv) Consulting fees paid to a shareholder, current and former officers of the Corporation, included in corporate and administrative expenses	$ 255	$ 241

The transactions were conducted in the normal course of operations and measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

7. PROPERTY AND EQUIPMENT:

2006	Cost	Accumulated depreciation	Net book value
Production equipment	$ 27,078	$ 14,908	$ 12,170
Buildings	3,459	1,868	1,591
Leasehold improvements	3,237	1,936	1,301
Vehicles	1,119	708	411
Land	915	–	915
	$ 35,808	$ 19,420	$ 16,388

During the year, the Corporation added approximately $1,517,000 of manufacturing and baking equipment coupled with other related properties as a part of the 70% acquisition of a bakery from an unrelated party; also an equipment write-down of approximately $663,000 due to fair market evaluation.

2005			
Production equipment	$ 25,263	$ 13,855	$ 11,408
Buildings	3,459	1,743	1,716
Leasehold improvements	2,518	1,676	842
Vehicles	1,069	674	395
Land	915	–	915
	$ 33,224	$ 17,948	$ 15,276

8. INTANGIBLE ASSETS:

2006	Cost	Accumulated depreciation	Net book value
Deferred development costs	$ 3,136	$ 2,239	$ 897
Deferred finance costs	408	293	115
	$ 3,544	$ 2,532	$ 1,012

2005			
Deferred development costs	$ 2,979	$ 2,014	$ 965
Deferred finance costs	391	270	121
	$ 3,370	$ 2,284	$ 1,086

The Corporation recorded approximately $137,000 write-down due to permanent impairment in 2006 (2005 – Nil).

9. BANK LOANS AND LONG-TERM DEBT:

(a) Bank loans:

The bank loans are revolving lines of credit, repayable on demand, bearing interest at rates ranging from the bank's prime rate plus 0.5% to the bank's prime rate plus 1.25% per annum and are secured under various general security agreements covering, all present and after-acquired property of the Corporation, an assignment of life insurance on an officer and shareholder of the Corporation, a general assignment of accounts receivable and inventory, personal guarantees from an officer and shareholder of the Corporation and a postponement of claim by the Corporation.

(b) Long-term debt:

	2006	2005
Term loans, repayable in monthly principal instalments of approximately $75,000 plus interest ranging from the lenders' cost of funds to cost of funds plus 0.25% per annum, and the bank's prime rate plus 1.25% per annum, and secured as described in note 9(a)	**$ 5,576**	$ 6,646
Mortgages, repayable in monthly principal instalments of approximately $27,000 bearing interest at rates ranging from the lenders' floating base rate to the lenders' cost of funds plus 2.75% per annum, and secured by the buildings (see note 7). Mortgages are not subject to renewal until dates ranging from November, 2008 to May, 2016	**3,711**	4,021
Second mortgages, no principal repayment till the maturity on February 15, 2007, bearing interest rate at 14% per annum paid monthly (2005: 15%) with assignments of rent to lender	**1,007**	1,016
Capital leases, due 2007 through 2010, payable monthly, with interest rates ranging from 6.8% to 7.87% per annum and secured by certain equipment with a net book value at June 30, 2006 totaling approximately $195 thousand (2005 – $212 thousand)	**131**	164
	10,425	11,847
Less current portion	**2,278**	1,474
	$ 8,147	$ 10,373

Except as specifically disclosed, the Corporation has pledged as security for the various mortgages and loans, all of the assets of the Corporation.

The Corporation is required to make future principal payments as follows:

	Long-term debt	Capital leases	Total
2007	$ 2,237	$ 41	$ 2,278
2008	1,457	25	1,482
2009	2,696	28	2,724
2010	1,134	37	1,171
2011	577	–	577
Thereafter	2,193	–	2,193
	$ 10,294	$ 131	$ 10,425

10. BUSINESS ACQUISITIONS:

(a) On December 13, 2005, the Corporation acquired 45% voting and 100% non-voting shares of Angiogene Inc "Angiogene" for cash consideration of $1,000,000. Its results of operations have been reflected in the consolidated financial statements from the acquisition date. Angiogene was a private corporation engaging in medical research prior to ceasing operations in 2004. At the time of the investment, Angiogene had no indebtedness or assets. However, this investment was a part of the strategic plan in providing financial flexibility to improve shareholders' value.

(b) On March 31, 2006, Angiogene acquired 70% of Big Island Bakery "Big Island" for total cash consideration of $773,702 of which $73,702 was commission. Big Island is a private wholesale bakery located in Nanaimo, British Columbia since 1998. Its major customers include distributors, wholesalers, convenience stores, gas stations and grocery outlets.

These acquisitions were accounted for by the purchase method and the allocation of the purchase prices are as follows:

	Angiogene	Big Island	Total
Assets:			
Working capital	–	494	494
Tangible assets	–	1,515	1,51
Goodwill	–	548	548
Future income tax	1,000	–	1,000
	1,000	2,557	3,557
Liabilities:			
Working capital	–	492	492
Bank indebtedness	–	1,036	1,036
Long-term debt	–	255	255
	–	1,783	1,783
Net assets	1,000	774	1,774
Consideration:			
Cash	1,000	774	1,774

11. SHARE CAPITAL:

(a) Authorized:

(i) Unlimited Class A voting common shares; and

(ii) 100,000,000 non-voting Class B shares, Series 2.

(b) Class A common shares issued:

	2006		2005	
	Shares	Amount	Shares	Amount
Balance, beginning of year	**17,449,897**	**$ 8,231**	17,669,973	$ 8,325
Redemption of shares	**(429,800)**	**(203)**	(458,800)	(216)
Issued for cash	**150,000**	**80**	238,724	122
Balance, end of year	**17,170,097**	**$ 8,108**	17,449,897	$ 8,231

During the year ended June 30, 2006 the Corporation acquired 429,800 (2005 – 458,800) Class A common shares for consideration consisting of cash proceeds totaling $466,000 (2005 – $438,000). As the consideration rendered was in excess of the stated value of the shares, the amount in excess totaling $263,000 (2005 – $222,000) was recorded as a reduction of retained earnings.

11. SHARE CAPITAL: *continued*

(c) Stock options:

The Corporation has a stock option plan whereby officers, directors, employees and consultants may be granted options to purchase Class A common shares of the Corporation. As at June 30, 2006 outstanding options have been granted to purchase 180,000 (2005 – 440,000) Class A common shares at $0.94 until expiry on March 1, 2010. Options vest over a period of three years and have a term of five years to expiry.

	2006		2005	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
Outstanding options, beginning of year	**440,000**	**$ 0.70**	603,724	$ 0.52
Granted	–	–	180,000	0.94
Exercised	**(150,000)**	**0.53**	(238,724)	0.51
Expired / cancelled	**(110,000)**	**0.53**	(105,000)	0.50
Outstanding options, end of year	**180,000**	**$ 0.94**	440,000	$ 0.70
Options exercisable, end of year	**90,000**	**$ 0.94**	305.000	$ 0.59

Options Range of Exercise Price	**Outstanding June 30, 2006**	**Weighted average remaining contractual life (years)**	**Exercisable June 30, 2006**	**Weighted Weighted average exercise price**
$0.94	**180,000**	**3.66**	**90,000**	**$ 0.94**

(d) Per share amounts:

The weighted average number of Class A common shares outstanding during the year ended June 30, 2006 was 17,318,801 (year ended June 30, 2005 – 17,571,065). The dilutive effect of options for the year ended June 30, 2006 was 191,438 (year ended June 30, 2005 – 283,509).

12. STOCK BASED COMPENSATION:

The Corporation has a stock option plan whereby officers, directors, employees and consultants may be granted the option to purchase Class A common shares of the Corporation.

For options granted prior to July 1, 2003, compensation expense has not been recognized and recorded in the income statement.

During the year ended June 30, 2005 the Corporation granted 180,000 options with a fair value of $0.34 per option, resulting in a fair value of $61,100. This amount is being recognized over a period of 5 years, which is the vesting period of the options. The fair value of each option granted was determined using the Black-Scholes model with the following assumptions:

Expected dividend yield	0.0%
Risk free interest rate	5.0%
Expected volatility	30.0%
Expected life (in years)	5.0

13. INCOME TAXES:

Total income taxes are different from the amount computed by applying the average combined expected Canadian Federal and Provincial tax rate of 32.1% (2005 – 34.0%) to income before income taxes and other items. The reasons for the difference are as follows:

	2006	2005
Computed expected tax provision	$ 3,021	$ 1,374
Add (deduct) the tax effect of the following:		
Impact of change in federal and provincial tax rates	(25)	(61)
Capital taxes	6	58
Change in valuation allowance	369	(460)
Non-taxable portion of capital gains	(1,597)	(437)
Non-taxable portion of write-down on marketable securities/receivables	–	418
Non-deductible expenses	(157)	55
Non-deductible income from foreign and affiliated companies (note 5)	(478)	(221)
Non-deductible reserve	400	–
Total income taxes, as reported	$ 1,539	$ 726

The components of the net future income tax asset (liabilities) at June 30, 2006 and 2005 are as follows:

	2006	2005
Future income tax liabilities:		
Carrying value of property, equipment and intangible assets in excess of tax cost	(1,325)	(1,533)
Non-deductible reserve	(400)	–
	(1,725)	(1,533)
Future income tax assets:		
Non-capital losses	$ 1,199	$ 417
Net capital and other losses	413	3
Investment tax credit	612	–
Scientific research and development	4,355	–
Tax cost of property, equipment and intangible assets in excess of carrying value	179	149
Tax cost of investments in excess of carrying value	777	–
	7,535	569
Valuation allowance	(6,168)	–
Net future income tax liability	$ (358)	$ (964)

At June 30, 2006 the Corporation had cumulative income tax deductions totaling approximately $28 million, including reported non-capital losses for income tax purposes of approximately $3.3 million which expire in the years 2007 to 2011.

Corporate tax returns are subject to assessment by taxation authorities in the normal course of business. The results of any assessments will be accounted for as a charge to earnings in the year in which they occur.

14. SEGMENTED INFORMATION:

Reportable segments are identified on the basis of internal reporting to senior management. The Corporation operates primarily through three operating groups being: 1) food processing and distribution, 2) real estate and rental properties, and 3) marketable securities investment. All operations are located in Canada.

Inter-segment eliminations relate to revenues between segments recorded at transfer prices based on current market prices. Operating margin represents total revenues less cost of sales, including depreciation. Operating expenses are comprised of interest, corporate, royalty, amortization and administrative charges. Identifiable assets by industry segment are the assets specifically attributable to those operations.

The following is an analysis of certain consolidated financial information by segment for the years ended June 30:

	2006	2005
Revenues:(1)		
Food processing and distribution	**$ 41,269**	$ 39,741
Real estate and rental properties	**465**	554
Inter-segment transactions	**(465)**	(554)
	$ 41,269	$ 39,741
Income (loss) before income taxes:		
Food processing and distribution	**$ (978)**	$ 792
Real estate and rental properties	**(90)**	(3)
Inter-segment transactions	**(410)**	(500)
Income from affiliated company	**1,610**	650
Marketable securities investment	**9,115**	3.101
	$ 9,247	$ 4,040

(1) During the year ended June 30, 2006, sales totaling approximately $3.6 million (2005 – $4.0 million) were made to customers located in the United States.

Property and equipment:

2006	Food processing and distribution	Real estate and rental properties	Total
Production equipment	**$ 11,882**	**$ 288**	**$ 12,170**
Buildings	**–**	**1,591**	**1,591**
Leasehold improvements	**1,288**	**13**	**1,301**
Vehicles	**411**	**–**	**411**
Land	**–**	**915**	**915**
	$ 13,581	**$ 2,807**	**$ 16,388**

2005	Food processing and distribution	Real estate and rental properties	Total
Production equipment	$ 11,100	$ 308	$ 11,408
Buildings	–	1,716	1,716
Leasehold improvements	828	14	842
Vehicles	395	–	395
Land	–	915	915
	$ 12,323	$ 2,953	$ 15,276

14. SEGMENTED INFORMATION: *continued*

Expenditures on property and equipment, intangible assets and depreciation and amortization:

	2006		2005	
	Expenditures on capital assets and other intangibles	**Depreciation and amortization**	Expenditures on capital assets and other intangibles	Depreciation and amortization
Food processing and distribution	**$ 4,109**	**$ 1,573**	$1,735	$1,580
Real estate and rental properties	**–**	**148**	–	158
	$ 4,109	**$ 1,721**	$1,735	$1,739

Total identifiable assets:

	2006	2005
Food processing and distribution	**$ 28,159**	$ 22,349
Marketable securities	**41,131**	27,376
Real estate and rental properties	**3,110**	2,953
	$ 72,400	$ 52,678

15. FINANCIAL INSTRUMENTS:

(a) Fair values:

As at June 30, 2006 and 2005, the fair values of the Corporation's related party balances were considered undeterminable due to the inability to apply a valuation method or obtain market prices. The fair values of all other monetary assets and liabilities, other than marketable securities (see note 2) approximated their carrying values.

(b) Credit risk:

Credit risk arises from the possibility that the entities to which the Corporation provides services may experience difficulty and be unable to fulfill their obligations. The Corporation is exposed to financial risk that arises from the credit quality of the entities to which it provides services.

As at June 30, 2006, five customers accounted for 73%, (2005 – 74%) of consolidated revenues from operations and five customers accounted for 53% (2005 – 58%) of the consolidated accounts receivable. The Corporation believes that there is no unusual exposure associated with the collection of these receivables. The Corporation performs regular credit assessments of its customers and provides allowances for potentially uncollectible accounts receivable.

(c) Interest rate risk:

The Corporation is exposed to fluctuations in interest rates with respect to its margin loan, bank loan, long-term debt, and balances due to and from related parties.

(d) Market risk:

A substantial portion of the Corporation's income is derived from its marketable securities portfolio and from that of Somerset Properties. The performance of those porfolios and the income derived therefrom is subject to market fluctuations, changes in commodity prices and the performance of the entities whose securities are held. The value of the Corporation's real estate investments are also subject to market fluctuations.

16. COMMITMENT:

As at June 30 2006, the Corporation has guaranteed the indebtedness of an affiliated company up to a maximum amount of $750,000. Payment under this guarantee, which will remain in place until January 31 2025, is required when the affiliated company fails to perform under the loan agreement. As at June 30 2006, no liability has been recorded associated with this guarantee.

17. SUPPLEMENTAL CASH FLOW DISCLOSURE:

(a) Changes in non-cash working capital:

	2006	2005
Marketable securities	**$ (7,490)**	$(12,776)
Accounts receivable	**(1,127)**	538
Inventory	**(365)**	129
Prepaid expenses	**55**	(136)
Accounts payable, margin loans and other liabilities	**12,818**	11,702
	$ 3,891	$ (543)

(b) Cash payments:

The following approximate cash payments were made:

	2006	2005
Interest	**$ 1,480**	$ 1,449
Taxes	**$ 18**	$ 60

18. SUBSEQUENT EVENT:

In March 2006, the Corporation purchased a 70% interest in B.C. based bakery for $700 thousand. While it has positively impacted sales, it has negatively impacted margins. In September the Corporation commenced legal action asking to unwind the agreement, alleging misrepresentation.

Notes